

CITY OF ADRIAN, MICHIGAN
DIAL-A-RIDE SYSTEM ENTERPRISE FUND
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2004
WITH
INDEPENDENT AUDITORS' REPORT

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

| | | | |
|---|--------------------------------|--|-------------------|
| Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other | | Local Government Name CITY OF ADRIAN, MI DIAL-A-RIDE PROGRAM | County LENAWEE |
| Audit Date JUNE 30, 2004 | Opinion Date AUGUST 6, 2004 | Date Accountant Report Submitted to State: OCTOBER 20, 2004 | |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

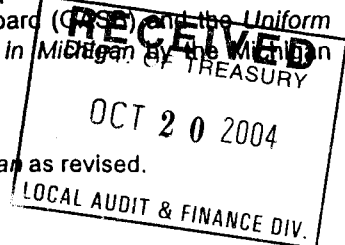
You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

| | Enclosed | To Be Forwarded | Not Required |
|---|----------|-----------------|--------------|
| The letter of comments and recommendations. | X | | |
| Reports on individual federal financial assistance programs (program audits). | | | X |
| Single Audit Reports (ASLGU). | | | X |

| | | | |
|---|----------------|-------------|--------------|
| Certified Public Accountant (Firm Name) ROBERTSON, EATON & OWEN, P.C. | | | |
| Street Address 121 NORTH MAIN STREET | City ADRIAN | State MI | ZIP 49221 |
| Accountant Signature  | | | |



August 6, 2004

City of Adrian
State of Michigan

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying statements of net assets of the Dial-A-Ride System Enterprise Fund of the City of Adrian, Michigan as of June 30, 2004 and 2003, and the related statements of revenues, expenditures and changes in fund net assets, and cash flows for the years then ended. These financial statements are the responsibility of the City of Adrian, Michigan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Dial-A-Ride System Enterprise Fund of the City of Adrian, Michigan as of June 30, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplementary information in Schedules 1 through 6 is presented for purposes of additional analysis and is not a required part of the financial statements of the Dial-A-Ride System Enterprise Fund of the City of Adrian, Michigan. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Robertson, Eaton & Owen, P.C.

CITY OF ADRIAN, MICHIGAN
DIAL-A-RIDE SYSTEM ENTERPRISE FUND
STATEMENTS OF NET ASSETS
June 30, 2004 and 2003

| <u>ASSETS</u> | <u>2004</u> | <u>2003</u> |
|--|-------------------|-------------------|
| Current assets: | | |
| Due from other governments | \$ 55,580 | \$ 58,445 |
| Total current assets | 55,580 | 58,445 |
| Capital assets: | | |
| Vehicles, less accumulated depreciation of \$256,858 and \$206,380, respectively | <u>251,130</u> | <u>251,497</u> |
| Total assets | <u>\$ 306,710</u> | <u>\$ 309,942</u> |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| Current liabilities: | | |
| Due to General Fund | \$ 45,891 | \$ 47,609 |
| Due to other governmental units | 5,427 | 4,522 |
| Vouchers payable | <u>4,262</u> | <u>6,314</u> |
| Total current liabilities | <u>55,580</u> | <u>58,445</u> |
| Net assets: | | |
| Invested in capital assets – net of related debt | <u>251,130</u> | <u>251,497</u> |
| Total net assets | <u>\$ 251,130</u> | <u>\$ 251,497</u> |

CITY OF ADRIAN, MICHIGAN
DIAL-A-RIDE SYSTEM ENTERPRISE FUND
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS
For the Years Ended June 30, 2004 and 2003

| | | <u>2004</u> | <u>2003</u> |
|--|--------------|--------------------------|--------------------------|
| Operating revenues: | (Schedule 1) | \$ 62,691 | \$ 62,697 |
| Operating expenses: | (Schedule 2) | <u>(440,192)</u> | <u>(413,435)</u> |
| Operating loss | | (377,501) | (350,738) |
| Nonoperating revenues: | (Schedule 3) | <u>205,471</u> | <u>208,931</u> |
| Loss before transfers and contributions | | (172,030) | (141,807) |
| Transfer – General Fund of City of Adrian | | 121,552 | 100,433 |
| Capital contribution – State | | <u>50,111</u> | <u>94,942</u> |
| Change in net assets | | (367) | 53,568 |
| Total net assets – beginning | | <u>251,497</u> | <u>197,929</u> |
| Total net assets – ending | | <u>\$ 251,130</u> | <u>\$ 251,497</u> |

CITY OF ADRIAN, MICHIGAN
DIAL-A-RIDE SYSTEM ENTERPRISE FUND
STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2004 and 2003

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

| | <u>2004</u> | <u>2003</u> |
|---|--------------------|--------------------|
| Cash flows from operating activities: | | |
| Cash received from customers | \$ 62,691 | \$ 62,697 |
| Cash paid to suppliers | (172,441) | (156,596) |
| Cash paid to employees | <u>(218,420)</u> | <u>(211,602)</u> |
| Net cash used in operating activities | <u>(328,170)</u> | <u>(305,501)</u> |
| Cash flows from noncapital financing activities: | | |
| Grant received - Federal | 41,566 | 38,957 |
| Grant received - State | 166,770 | 164,658 |
| Operating transfers from General Fund | <u>119,834</u> | <u>101,886</u> |
| Net cash provided by noncapital financing activities | <u>328,170</u> | <u>305,501</u> |
| Net increase (decrease) in cash and cash equivalents | - | - |
| Cash and cash equivalents at beginning of year | <u>-</u> | <u>-</u> |
| Cash and cash equivalents at end of year | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> |

CITY OF ADRIAN, MICHIGAN
DIAL-A-RIDE SYSTEM ENTERPRISE FUND
STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2004 and 2003

**RECONCILIATION OF OPERATING LOSS TO NET CASH
USED IN OPERATING ACTIVITIES**

| | <u>2004</u> | <u>2003</u> |
|--|---------------------|---------------------|
| Operating loss | <u>\$ (377,501)</u> | <u>\$ (350,738)</u> |
| Adjustments to reconcile operating loss to net cash used in operating activities: | | |
| Depreciation | 50,478 | 41,374 |
| Changes in Assets and Liabilities; | | |
| Increase (decrease) in vouchers payable | (2,052) | 2,953 |
| Increase (decrease) in due to County | <u>905</u> | <u>910</u> |
| Total adjustments | <u>49,331</u> | <u>45,237</u> |
| Net cash used in operating activities | <u>\$ (328,170)</u> | <u>\$ (305,501)</u> |

CITY OF ADRIAN, MICHIGAN
DIAL-A-RIDE SYSTEM ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS

June 30, 2004 and 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The records of the Dial-A-Ride System Enterprise Fund are maintained on the accrual basis of accounting, as prescribed by the State of Michigan.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. PROPERTY ASSETS

Vehicles are stated at cost or fair market value at date of gift. The vehicles in use by the Dial-A-Ride System Enterprise Fund are purchased by the State. If the program should end, the vehicles would be returned to the State. The buses are depreciated over four years on a straight line basis.

Radios, computer equipment, and office furnishings have also been received from the State and are being depreciated over four, five, and ten years, respectively, on a straight line basis.

Property assets on the balance sheet at June 30, 2004 are:

| | |
|----------------------------------|-------------------|
| Radios | \$ 19,258 |
| Equipment and office furnishings | 32,992 |
| Vehicle cost | 455,738 |
| Less: Accumulated depreciation | <u>(256,858)</u> |
| | <u>\$ 251,130</u> |

3. COMMITMENTS

The City of Adrian has contracted with Quick Service Transportation Company of Adrian, Michigan to operate the Dial-A-Ride System Enterprise Fund. The City of Adrian pays the Transportation Company \$300 per month for rental of a dispatch center and bus parking area, \$1,355 per month for administrative duties and makes reimbursement for all direct expenses of Dial-A-Ride.

4. TRANSPORTATION AGREEMENT AND COST ALLOCATION

The Dial-A-Ride System provides semi-fixed route service to the City of Adrian residents. The Lenawee Transportation Corporation (LTC) operates a separate service for Lenawee County residents. On September 17, 1984, LTC and the City of Adrian entered into an agreement to provide public transportation to both service areas by sharing in a transportation coordinator, clerical and support assistance, and office space.

CITY OF ADRIAN, MICHIGAN
DIAL-A-RIDE SYSTEM ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS

June 30, 2004 and 2003

4. TRANSPORTATION AGREEMENT AND COST ALLOCATION (Continued)

LTC pays the wages and fringe benefits of the transportation coordinator, and the City of Adrian provides the clerical and support assistance, and office space for LTC.

At this time, a formula has been worked out for the allocation of costs between Lenawee Transportation Corporation and the City of Adrian. This formula or allocation plan has been accepted by the Michigan Department of Transportation. Based on this plan, the allocated costs have been determined for the year. The difference in the allocated costs between the two units has been set up as a receivable or payable by the applicable unit.

5. CAPITAL GRANTS

In fiscal year 2003-04, the Dial-A-Ride System Enterprise Fund had the following capital grant activity:

| <u>Capital Grant Contract Number</u> | <u>Grant Award</u> | <u>2003-04 Expenditures</u> | <u>Prior Year Expenditures</u> | <u>Remaining Grant</u> |
|--|--------------------|---------------------------------|------------------------------------|----------------------------|
| 2000-0460/A2 | \$ 490,649 | \$` | \$ 160,808 | \$ 329,841 |
| 98-0792-A4 | 65,000 | | | 65,000 |
| 2001-0527 | 417,565 | 1,746 | 94,942 | 320,877 |
| 2001-0850 | 468,750 | | | 468,750 |
| 2002-0002 | 49,415 | 48,365 | | 1,050 |

6. CHANGES IN CAPITAL CONTRIBUTIONS

Changes in capital contributions for the year ended June 30, 2004 consist of the following:

| | <u>State</u> | <u>Local</u> | <u>Total</u> |
|-------------------------|-------------------|-------------------|-------------------|
| Balance - July 1, 2003 | \$ 251,497 | \$ - | \$ 251,497 |
| Add: | | | |
| New property assets | 50,111 | | 50,111 |
| Deduct: | | | |
| Depreciation | <u>(50,478)</u> | <u> </u> | <u>(50,478)</u> |
| Balance - June 30, 2004 | <u>\$ 251,130</u> | <u>\$ -</u> | <u>\$ 251,130</u> |

CITY OF ADRIAN, MICHIGAN
DIAL-A-RIDE SYSTEM ENTERPRISE FUND
OPERATING REVENUES

For the Years Ended June 30, 2004 and 2003

| | 7/01/03 To <u>9/30/03</u> | 10/01/03 To <u>6/30/04</u> | 7/01/02 To <u>9/30/02</u> | 10/01/02 To <u>6/30/03</u> |
|----------------------------|--|---|--|---|
| Operating revenues: | | | | |
| Fares | \$ 14,004 | \$ 48,687 | \$ 14,236 | \$ 47,271 |
| Other | <u> </u> | <u> </u> | <u> </u> | <u>1,190</u> |
| Total operating revenues | <u>\$ 14,004</u> | <u>\$ 48,687</u> | <u>\$ 14,236</u> | <u>\$ 48,461</u> |

CITY OF ADRIAN, MICHIGAN
DIAL-A-RIDE SYSTEM ENTERPRISE FUND
OPERATING EXPENSES

For the Years Ended June 30, 2004 and 2003

| | <u>Operations</u> | <u>Maintenance</u> | <u>General Administration</u> | <u>Total System</u> |
|---|-------------------|--------------------|-----------------------------------|---------------------|
| Labor: | | | | |
| Salaries and wages | \$ 218,420 | \$ | \$ | \$ 218,420 |
| Other salaries and wages | 16,260 | | 1,500 | 17,760 |
| Fringe benefits | 67,809 | | | 67,809 |
| Services: | | | | |
| Advertising | | | 203 | 203 |
| Other services | | 39,755 | 1,780 | 41,535 |
| Materials and supplies consumed: | | | | |
| Fuel and lubricants | 28,234 | | | 28,234 |
| Other materials and supplies | 3,763 | | 454 | 4,217 |
| Utilities: | | | | |
| Telephone | 2,721 | | | 2,721 |
| Casualty and liability insurance costs | 5,215 | | | 5,215 |
| Leases and rentals | 3,600 | | | 3,600 |
| Depreciation | <u>50,478</u> | <u> </u> | <u> </u> | <u>50,478</u> |
| For year ended June 30, 2004 | <u>\$ 396,500</u> | <u>\$ 39,755</u> | <u>\$ 3,937</u> | <u>\$ 440,192</u> |
| For year ended June 30, 2003 | <u>\$ 371,818</u> | <u>\$ 37,874</u> | <u>\$ 3,743</u> | <u>\$ 413,435</u> |

CITY OF ADRIAN, MICHIGAN
DIAL-A-RIDE SYSTEM ENTERPRISE FUND
NONOPERATING REVENUES

For the Years Ended June 30, 2004 and 2003

| | <u>2004</u> | <u>2003</u> |
|---|------------------------------|------------------------------|
| State of Michigan Operating Grant - | | |
| Formula Operating Assistance (Act 51) - | | |
| State's current year | \$ 124,792 | \$ 124,122 |
| Formula Operating Assistance (Act 51) - State's | | |
| prior year ended September 30, 2003 | 38,005 | 44,073 |
| U.S. D.O.T. - | | |
| Operating Grant - Section 5311 - | | |
| State's current year | 32,353 | 31,030 |
| Operating Grant - Section 5311 - State's | | |
| prior year ended September 30, 2003 | <u>10,321</u> | <u>9,706</u> |
| Total nonoperating revenues | <u><u>\$ 205,471</u></u> | <u><u>\$ 208,931</u></u> |

CITY OF ADRIAN, MICHIGAN

DIAL-A-RIDE SYSTEM ENTERPRISE FUND

SCHEDULE OF EXPENSES BY CONTRACT AND GENERAL OPERATIONS

For the Year Ended June 30, 2004

| | <u>Grants</u> | <u>Operation</u> | <u>Total</u> |
|------------------------------|---------------|-------------------|-------------------|
| Labor | \$ | \$ 218,420 | \$ 218,420 |
| Other salaries and wages | | 17,760 | 17,760 |
| Fringe benefits | | 67,809 | 67,809 |
| Services | | 41,738 | 41,738 |
| Materials and supplies | | 32,451 | 32,451 |
| Utilities | | 2,721 | 2,721 |
| Casualty and liability costs | | 5,215 | 5,215 |
| Depreciation | | 50,478 | 50,478 |
| Leases and rentals | | <u>3,600</u> | <u>3,600</u> |
| | <u>\$ -</u> | <u>\$ 440,192</u> | <u>\$ 440,192</u> |

CITY OF ADRIAN, MICHIGAN

DIAL-A-RIDE SYSTEM ENTERPRISE FUND

NET ELIGIBLE COSTS COMPUTATIONS OF GENERAL OBLIGATIONS

For the Year Ended June 30, 2004

| | <u>Federal Section 5311</u> | | <u>State Operating Assistance</u> | |
|------------------------------|-----------------------------|-------------------|-----------------------------------|-------------------|
| | <u>7/01/03</u> | <u>10/01/03</u> | <u>7/01/03</u> | <u>10/01/03</u> |
| | <u>to</u> | <u>to</u> | <u>to</u> | <u>To</u> |
| | <u>9/30/03</u> | <u>6/30/04</u> | <u>9/30/03</u> | <u>6/30/04</u> |
| Expenses: | | | | |
| Labor | \$ 57,569 | \$ 160,851 | \$ 57,569 | \$ 160,851 |
| Other salaries and wages | 4,440 | 13,320 | 4,440 | 13,320 |
| Fringe benefits | 13,595 | 54,214 | 13,595 | 54,214 |
| Services | 8,916 | 32,822 | 8,916 | 32,822 |
| Materials and supplies | 6,590 | 25,861 | 6,590 | 25,861 |
| Utilities | 729 | 1,992 | 729 | 1,992 |
| Casualty and liability costs | 1,515 | 3,700 | 1,515 | 3,700 |
| Depreciation | 12,620 | 37,858 | 12,620 | 37,858 |
| Leases and rentals | <u>900</u> | <u>2,700</u> | <u>900</u> | <u>2,700</u> |
| Total expenses | <u>106,874</u> | <u>333,318</u> | <u>106,874</u> | <u>333,318</u> |
| Less ineligible expenses - | | | | |
| Depreciation | (12,620) | (37,858) | (12,620) | (37,858) |
| RTAP reimbursement | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total ineligible expenses | <u>(12,620)</u> | <u>(37,858)</u> | <u>(12,620)</u> | <u>(37,858)</u> |
| Total eligible expenses | <u>\$ 94,254</u> | <u>\$ 295,460</u> | <u>\$ 94,254</u> | <u>\$ 295,460</u> |
| Maximum Section 5311 | | | | |
| Reimbursement - 10.95% | <u>\$ 10,321</u> | <u>\$ 32,353</u> | | |
| State Assistance - | | | | |
| Limited to 42.93218922% | | | <u>\$ 38,005</u> | |
| (Includes adjustment of | | | | |
| first nine months) | | | | |
| Limited to 42.236619648% | | | | <u>\$ 124,792</u> |

CITY OF ADRIAN, MICHIGAN
DIAL-A-RIDE SYSTEM ENTERPRISE FUND
MILEAGE DATA

For the Year Ended June 30, 2004

| <u>Demand – Response</u> | | <u>Public Transportation Mileage</u> |
|--------------------------|---------|--|
| First | Quarter | 37,269 |
| Second | Quarter | 41,538 |
| Third | Quarter | 44,335 |
| Fourth | Quarter | <u>41,945</u> |
| | | <u>165,087</u> |

NOTE: The methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

August 6, 2004

Honorable Mayor and
Members of the City Commission
City of Adrian, Michigan

We have audited the financial statements of the City of Adrian, Michigan and the combining, individual fund and account group financial statements of the City of Adrian, Michigan as of and for the year ended June 30, 2004, and have issued our report thereon dated August 6, 2004.

In planning and performing our audit of the financial statements of the City of Adrian, Michigan for the year ended June 30, 2004, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

The management of the City of Adrian, Michigan is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operations that we consider to be material weaknesses as defined above.

However, we noted certain matters involving the internal control structure and its operation that we are reporting to you in the remainder of this report. This report is intended solely for the use of management and should not be used for any other purpose.

Page 2

August 6, 2004

Honorable Mayor and
Members of the City Commission
City of Adrian, Michigan

AUDIT COMMENTS – PRIOR YEAR

During our audit, we noticed that areas we commented on last year are being worked on or have improved. These areas include computerizing certain accounting procedures and procedures on new hires.

One area where work still needs to be done is the old personal property tax receivables on the City's books. The City should investigate these receivables for any possible collection. If determined uncollectible, the receivables should be formally written off.

NEW STATISTICAL SECTION

We are pleased to see the City has initiated the inclusion of the new statistical data section in its Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2004. This has been done prior to the required date of implementation by the Governmental Accounting Standards Board which is commendable.

The expanded financial and statistical information found in the CAFR provides a better picture of the economic condition of the City and economic environment in which the City operates.

BUDGETING

When budget amendments are made, it is important that the total amended budgetary expenditures of a fund do not exceed the amended budgetary revenues plus the fund's equity.

In other words, the City needs to watch amending budgetary expenditures which result in placing a fund in a deficit position.

PENSION PLAN

As a continuing update on the City's Pension Plan with MERS (Municipal Employees' Retirement System of Michigan), following is the financial condition of the plan at December 31, 2003.

According to the latest actuarial valuation (for the year ended December 31, 2003), the Pension Plan was under funded by \$2,759,994. At December 31, 2002, the plan was under funded by \$1,565,129.

The City's projected contribution to the Pension Plan for 2004-05 is \$423,912.

Page 3

August 6, 2004

Honorable Mayor and
Members of the City Commission
City of Adrian, Michigan

FINANCIAL CONDITION

The City continues to be in good financial condition. At June 30, 2004, the General Fund has a total fund balance of \$7,237,093, which is down slightly from last year's fund balance of \$7,468,554. The unreserved portion of the fund balance (designated and undesignated) of the General Fund is \$6,309,600 at June 30, 2004 compared to \$5,588,179 at June 30, 2003. The increase is due mainly to reserving fewer encumbrances (carryforwards) at June 30, 2004 then at June 30, 2003, reflecting an accounting approach that moved a portion of carryforward appropriations into designated fund balance.

All funds of the City had positive equity balances at June 30, 2004. But, as noted in the past, the Automobile Parking System and the Storm Water Utility Fund have relatively low unrestricted fund equities. The Automobile Parking System had unrestricted equity of \$20,506 and the Storm Water Utility had equity of \$18,404 at June 30, 2004.

Again, we appreciate the assistance provided by the City during our audit.

Robertson, Eaton & Owen, P.C.